02-1645

Supreme Court, U.S.
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In the

Supreme Court of the United States

QUICK TECHNOLOGIES, INC.,

Petitioner,

v.

THE SAGE GROUP PLC and, SAGE US HOLDINGS, INC.

and

SAGE SOFTWARE, INC.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

REPLY BRIEF

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REPLY TO BRIEF IN OPPOSITION

Pursuant to Supreme Court Rule 15.6, Petitioner addresses the following new points raised in the Brief in Opposition.

I. PETITIONER WAS DENIED ITS RIGHT TO A TRIAL BY JURY

Respondents suggest that Petitioner's right to a jury trial was not denied because Petitioner was given a lengthy jury trial where it prevailed on the merits. *See Brief in Opposition*, p. 3. However, it is axiomatic that a partial denial of a litigant's right to trial by jury nevertheless violates the Seventh Amendment. *See, e.g., Hodges v. Easton*, 106 U.S. 408, 412 (1882) ("The court could not, consistently with the constitutional right of trial by jury, submit a part of the facts to the jury, and, itself, determine the remainder without a waiver by the defendants of a verdict by the jury."). Petitioner had a right to a jury trial on the issue of the award of Respondents' profits associated with the infringement, under the language of Lanham Act Section 35(a) and this Court's precedent in *Dairy Queen, Inc. v. Wood*, 369 U.S. 469, 477-478 (1962). Petitioner was deprived of its right to a jury trial on that issue when the Fifth Circuit, after acknowledging that the jury had been erroneously instructed, nevertheless affirmed the judgment against Petitioner regarding an award of profits, rather than remanding for a determination by the jury with proper instructions.

II. THIS IS A REVERSE CONFUSION CASE

Respondents captioned one of the headings in their Brief in Opposition "This Was Not a 'Reverse Confusion' Case." *Brief in Opposition*, p. 6. This

assertion is apparently based on the fact that the jury instructions proposed by Petitioner and given by the district court on the issue of likelihood of confusion included instructions pertaining to both forward and reverse confusion. *See Petition*, pp. 32a-33a. Respondents' argument on this point is disingenuous.

In their Brief in Opposition, Respondents correctly identify the general distinction between "forward confusion" and "reverse confusion": "[f]orward confusion is the misimpression that the senior user is the source of the junior user's goods, whereas reverse confusion is the misimpression that the junior user is the source of the senior user's goods." *Brief in Opposition*, p. 6, n. 4 (citing *Banff, Ltd. v. Federated Dept. Stores, Inc.*, 841 F.2d 486, 490 (2d. Cir. 1988)). In either type of case, the confused customer is likely to assume that the user whose goods the customer is more familiar with is the source of the other user's goods (or that the other user is otherwise affiliated with the familiar user). *See Banff*, 841 F.2d at 490. Therefore, in any situation where two parties are using similar trademarks for similar goods, both reverse and forward confusion may occur. *See id.* However, in a situation such as the present case, where the junior user is much larger and better known, with many times the quantity of sales and much more extensive advertising, the reverse form of confusion will occur much more frequently. Therefore, these types of cases are called reverse confusion cases. Plainly, this case is a reverse confusion case.

The distinction between reverse and forward confusion is important in this case for two reasons. First, Petitioner asserts that the standard adopted by the Fifth Circuit for the award of an infringer's profits, when applied to reverse confusion cases, encourages large

junior users to trample the rights of smaller entities and is therefore improper. Second, this Court has never before ruled on a trademark case involving reverse confusion, and, because of the unique nature of reverse confusion cases, may not have the chance to do so for many years.

A. The Standards for Award of Infringer's Profits Applied by the Fifth Circuit and the District Court are Inequitable When Applied to Reverse Confusion Cases

In their Brief in Opposition, Respondents argue that "Petitioner's Deterrence Arguments are Unavailing" because of the deterrent effect of injunctive relief. *Brief in Opposition*, p. 7. However, injunctive relief alone is not a sufficient remedy in many reverse confusion cases.

In traditional forward confusion cases, willfulness is often found where the junior user's intent is to "ride the coattails" of the senior user's goodwill. In a reverse confusion situation, where a large junior user adopts the mark of a smaller, lesser known senior user, the senior user will never be able to show that the junior user adopted the mark with the specific intent to cause confusion or to misappropriate the senior user's goodwill, since most of the junior user's potential customers will not be familiar with the senior user and, by definition, the goodwill involved is small. The motivation in reverse confusion cases is to appropriate *the mark itself*, rather than the senior user's goodwill. Therefore, a reverse confusion plaintiff will never be able to get an award for the infringer's profits under the tests used by the district court or the Fifth Circuit, which are tailored to the forward confusion situation—emphasizing counterfeiting or misappropriation of

goodwill. This result does not comport with the Lanham Act or sound public policy.

Lanham Act Section 35(a) establishes that a prevailing trademark plaintiff is permitted to recover monetary relief, including, the defendant's profits, any damages sustained by the plaintiff and the cost of the action. *15 U.S.C. § 1117(a).* Although this right of recovery is made expressly "subject to the principles of equity," this limitation does not, as Respondents suggest, supplant the rest of the section. *Id.* Rather, the better reading of the statute is that such relief *should* be awarded, unless some principle of equity dictates otherwise. *See Ruolo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989), *cert denied* 493 U.S. 1075 (1990).

While the principles of equity may make a denial of infringer's profits appropriate in some instances,[1] Petitioner believes that in many reverse confusion cases, including the case at bar, the principles of equity weigh in favor of an award of profits. In this case, Respondents learned of Petitioner's claims to the SAGE trademark when they conducted a trademark search before using the SAGE mark in the United States. Respondents attempted to negotiate a coexistence agreement with Petitioner, without success. If Respondents had properly respected Petitioner's rights, Respondents would have chosen to proceed with a different brand at that time. Instead, Respondents made a knowing decision to disregard Petitioner's rights. Respondents proceeded with adopting the SAGE name

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[1] A profits award might be properly denied, for example, where there are no profits attributable to the infringement. *See, e.g., Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*, 966 F.2d 956, 957 (5th Cir. 1992) (affirming denial of profits "based solely on the lack of evidence showing that any of Defendant's profits were the result of its infringement of the mark")

as its umbrella brand in the United States, even though they represented to the U.S. Patent and Trademark Office that there was a likelihood of confusion resulting from the parties' concurrent use of the SAGE mark. Now, as a result of the standards applied by the district court and the Fifth Circuit, Respondents have only been made to choose a new, non-infringing name, which Respondents should have done in the first place.

Rather than promote equity, the result encourages other large senior users to ignore the trademark rights of smaller junior users. If the junior user likes the senior user's mark it may simply adopt and begin using the mark. The vast majority of small senior users will lose rights because they cannot afford the high costs of litigation. In the rare case where the small junior user prosecutes an infringement action through a jury trial, the worst-case scenario for the senior user is to be forced to do in the end what they should have done in the beginning, that is, find a new mark.[2] For the infringer, in such case, there would be no consequences resulting from even a knowing infringement, and in many cases, the infringer will be better off because they will have succeeded in taking what was not theirs. Therefore, the standard used by the Fifth Circuit and the instruction given by the district court, which will result in reverse confusion plaintiffs never being awarded the infringer's profits, are counter to principles of equity and at odds with Section 35(a).

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[2] *See* Oliver Wendell Holmes, *The Path of the Law*, 10 HARVARD LAW REVIEW 457 (1897) ("If you want to know the law and nothing else, you must look at it as a bad man, who cares only for the material consequences which such knowledge enables him to predict, not as a good one, who finds his reasons for conduct, whether inside the law or outside of it, in the vaguer sanctions of conscience.").

B. This Reverse Confusion Case Presents Novel Issues which this Court Has Not Previously Addressed

Contrary to Respondents' assertions, this case raises novel issues regarding trademark law which this Court has not previously addressed. As discussed above, the determination of whether it is equitable to award the infringer's profits to the successful trademark plaintiff should require consideration of different factors in reverse confusion cases than in forward confusion cases. Specifically, at least where a defendant is aware of the senior user's mark, is on notice that confusion is likely to occur, and nevertheless ignores the senior user's rights and proceeds to use the mark, a simple injunction against the junior user is an insufficient remedy. In such cases, an award of the junior user's profits associated with the infringement is appropriate even if the junior user did not act with a specific intent to misappropriate the senior user's goodwill.

A number of recent law review articles address the important distinction between forward and reverse confusion cases, as well as the lack of uniformity among lower courts examining the issue. One author comments "[t]he doctrine of reverse confusion was first judicially recognized nearly 20 years ago; yet, since that time, courts have made little progress in forming a system of analysis specific to the legal paradigm."[3] Similarly, another author notes that, although some

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[3] Molly S. Cusson, Note, *Reverse Confusion: Modifying the Polaroid Factors to Achieve Consistent Results*, 6 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 179, 241 (1995) ("The doctrine of reverse confusion was first judicially recognized nearly 20 years ago; yet, since that time, courts have made little progress in forming a system of analysis specific to the legal paradigm.").

courts recognize the need to modify the likelihood of confusion analysis in reverse confusion cases, "[t]hese necessary modifications, however, have not been clearly defined, which has left the lower courts with little guidance in their struggle to adapt the likelihood of confusion factors to the relatively new legal theory of reverse confusion."[4] Another author, recognizing the inherent potential in reverse confusion cases for the junior user to overwhelm the senior users' mark, argues "[p]ermitting the junior user to expand into the precise field where the senior has legitimately utilized its mark makes a mockery of the trademark system. ... America's small trademark holder already faces the daunting task of protecting its trademark in an increasingly global economy and can ill afford a policy that increases the economic burden."[5] These articles illustrate the importance of the doctrine of reverse confusion and the need for a separate analytical framework to provide greater predictability and fairness in such cases.

Additionally, due to the economics associated with reverse confusion cases this Court will not often have the opportunity to see such cases and address their merits. The very nature of reverse confusion cases means that a smaller company will be up against a much larger company. The costs associated with prosecuting a trademark action in federal court all the way through to a jury verdict are very high, especially against an opponent with significantly greater resources.

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[4] Richard E. Stanley, Jr., Comment, *Reverse Confusion as Applied in Dream Team Collectibles, Harlem Wizards Entertainment Basketball, and Illinois High School Association*, 50 BAYLOR L. REV. 1007, 1037-38 (2000).

[5] Jason R. Wolfersberger, *Illinois High School Association v. Gte Vantage, Inc.: Dual-Use Classification Threatens the Extinction of America's Small Trademark Holder*, 32 GEORGIA L. REV. 363, 391-92 (1997).

Therefore, many smaller senior users will either give up without a fight or choose to settle and license or assign their rights to the larger junior user. It is unlikely that many smaller plaintiffs in true reverse confusion situations will make it through the expensive and arduous process of litigation all the way to judgment, much less through the appeals process. Therefore, it is in the interest of the public for the Court to grant the requested writ at this time.

III. THE CIRCUIT SPLIT CITED BY PETITIONER IS NOT "ILLUSORY"

Respondents' argue that "the circuit split cited by [Petitioner] is illusory." *Brief in Opposition*, p. 9. However, later on the same page Respondents concede that "the cited conflict does exist." *Id.* There is, in fact, a conflict between the Circuits on the issue of the standard for awarding an infringer's profits. The Second Circuit has required a finding of willfulness before awarding an accounting of profits.[6] The Seventh Circuit has rejected a requirement of willful infringement.[7] The Fifth Circuit has come down somewhere in the middle, holding that palming off and an intent to confuse are two factors, among others, to be considered in determining whether to award infringer's profits. *See Pebble Beach Co. v. Tour 18 I, Ltd.*, 155 F.3d 526, 554 (5th Cir. 1998). Therefore an actual, non-illusory conflict exists between the Circuits on this issue. Petitioner

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[6] *See Banff, Ltd. v. Colberts, Inc., et al.*, 996 F.2d 33, 35 (2d Cir. 1993), *cert denied* 510 U.S. 1010 (1993) ("In short, willful deceptive conduct is a necessary basis, a prerequisite for an award of profits.").

[7] *See Ruolo*, 886 F.2d at 941 ("[T]here is no express requirement that the parties be in direct competition or that the infringer willfully infringe the trade dress to justify an award of profits.").

respectfully asks the Court to grant the requested writ and resolve this issue.

Respondents also argue that, although a conflict among the Circuits exists, the Fifth Circuit resolved the issue in favor of Petitioner, and, therefore, the conflict cannot advance Petitioner's position in this case. Respondents' argument is disingenuous. Although the Fifth Circuit found the jury instructions to be in error, it affirmed the judgment denying an award of profits and did so under an argument advanced by Respondents. Further, even though the Fifth Circuit nominally declined to adopt a bright-line rule requiring willfulness, the standard used by the district court and included in the jury instructions expressly required a finding of willfulness, under a very strict definition. *See Petition*, 60a-61a. The Fifth Circuit's failure to remand the case for determination under different instructions was a *de facto* approval of that standard, at least for the purposes of this case. Additionally, as Petitioner explained in its Petition, it believes the position of the Seventh Circuit, rejecting a requirement of willfulness and allowing an award of profits "subject only to principles of equity" is the correct standard. *Ruolo*, 886 F.2d at 941. The Fifth Circuit's six-factor test is not in agreement with the Lanham Act, particularly, as discussed above, when applied in reverse confusion situations.

Additionally, Respondents' argument in this regard fails to address the fact that there was no application of equity by the district court. Neither the district court nor the Fifth Circuit were in a position to apply equity without a finding by the jury on what, if any, profits were attributable to infringement. Obviously, the application of equity would be different where there was a finding of *no* profits attributable to infringement, versus a finding of $10 million of profits

attributable to infringement, or versus a finding of $62 million of profits attributable to infringement. Since the jury was prevented from answering that question by the district court's erroneous instructions, an appropriate application of equity could not have occurred. Accordingly, Petitioner has been harmed by the Circuit split, particularly if the Fifth Circuit purported to apply equity under its six-factor test, which is designed for cases involving forward confusion (misappropriation of goodwill). As discussed above, the Fifth Circuit's test would not likely result in a profits award in reverse confusion cases because of the lack of intent to misappropriate goodwill.

IV. CONCLUSION

For the reasons stated herein, Petitioner respectfully requests a writ of certiorari issue to the Fifth Circuit and that the decision of the Fifth Circuit be reversed.

Respectfully submitted,

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